THE IMPACT OF TAX EVASION AND TAX AVOIDANCE ON THE ZAMBIAN ECONOMY

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Abstract
The study seeks to examine the impact tax evasion and tax avoidance has on Zambian economy using the internal revenue service. A non-experimental research will be carried out to give implicit assumption on the impact of tax avoidance and evasion on Zambian economy. A primary and secondary source of data collection is going to be used for this research work. Structured questionnaires will be randomly administered to tax payers and tax officials and secondary data from already published articles, journals, brochures, magazines and newspapers. The sample size will be 60 comprising of 10 tax officials and 50 tax payers. The research will also highlight the rate of tax evasion and avoidance and give some recommendations on how to reduce the rate of tax avoidance and tax evasion. Simple Random sampling method will be used to collect the samples and collected data is going to be analyzed through descriptive research design using charts, graphs, tables, manual calculation of percentage method.

Keywords: Tax Evasion, Direct Tax and Avoidance.

Introduction
Taxation is the commonest and oldest source of government revenue in the world. It is an instrument of public policy. Taxation in Zambia dates back to when Northern Rhodesia was colonized by Britain. It began with the collection of income tax. The system of tax on income was extended here to employed individuals and continued to apply after independence. Income tax is a direct form of taxation levied directly on income.

Taxation can be said to be a means by which government finance their expenditure by imposing charges on citizens and corporate entities. It can also be said to be a financial burden laid upon individuals or property owners to support the government of a nation. Basically, there are two types of taxation and they are direct tax and indirect tax. 'Direct taxes are taxes that are levied directly on the income and gains whereas; Indirect taxes are taxes that are imposed indirectly' (ZICA 2012:8). Direct taxes include income tax, Mineral Royalty tax, property transfer tax, corporate tax and capital gain tax. While indirect taxes include sales tax and Value added tax.

Throughout history, taxation has been one of the most important policies for every government, regarding the raising of revenues for development project. Taxation was introduced in Zambia to create more avenues for government source of income in order to fund variety of public services.

Literature Review
The Zambia Revenue Authority place on accountants and auditors the responsibility to detect and report to the regulators cases of tax avoidance and tax evasion. However some Accountants in Zambia have the tendency to pursue their own selfish interest rather than defend public interest. The corrupt attitude of accountants in Zambia, who connive with company directors to present false statement, still has not declined. According to the Post Newspaper (May 6:2013) "Action Aid Zambia has observed that tax avoidance by national and multinational companies that are operating in the country was rampant and widespread".

The assistance provided by accountants to falsify statements has contributed immensely to tax evasion. The unethical practices by individuals and companies' to devise various schemes of tax avoidance and tax evasion have also received criticisms, this is to say individuals and companies indulge in tax avoidance and tax evasion even without the assistance of an accountant .

This criticism has re-echoed in recent times. it is paradoxical that accountants who prepare the entire financial statement of a company and also quiet knowledgeable about the financial transactions contained in these financial statements would still claim that they are unaware of any financial malpractices such tax avoidance and tax evasion that may later be deleted from the financial statement by an auditor.

Objectives
1. To understand the impact of tax evasion and avoidance on the Zambian economy.
2. To suggest some ways to alleviating the increasing rate of tax avoidance and evasion.

Methodology
This section is aimed at describing and explaining the methods that were used in collecting and analyzing data. It comprises of the research design, quantitative research, qualitative research, study area, sampling technique, sources of data and instrument used data analysis and presentation, and descriptive research. It will also try to explain the procedures that were used to gather information for this study. It will explain how primary and secondary data was used to get information that was relevant for the success of this research work. Most of the information was gotten from Zambia Revenue Authority, revenue house.

The need of this study is to examine and understand the impact of tax avoidance and tax evasion on the Zambian economy. The research is concerned with the impact tax avoidance and tax evasion has on the Zambian economy with a particular focus on the Zambia Revenue Authority.

A non – experimental research design was used to collect and analyze data. A simple questionnaire was designed to get significant information from tax payers, tax officials. A qualitative and quantitative research was used in order to gather an in-depth understanding of the tax payer's behavior towards taxation. It also tries to find out about the opinion of tax consultants regarding tax avoidance and tax evasion in Zambia. Sampling is concerned with the selection of a subset of individual from within a population to estimate characteristics of the whole population. The entire population in Zambia will not be surveyed because the cost of a census is too high.

In using sampling techniques, cost is lower, data collection is faster and since the data set is smaller, it is possible to ensure homogeneity and improves the accuracy and quality of the data. There will be a total sample size of 60 respondents divided as follows:
10-Tax Officials
50-Tax Payers
60

The sampling will be simple random and it is assumed that most of them will have knowledge of tax avoidance and tax evasion. The study area will be the staff of ZRA, as well as randomly selected businesses and individuals around the city of Lusaka who will fall in the class of the tax payers. It will also include other tax payers from different organizations.

This explains the devices used to collect data. The sources of data used in this research project where collected from both primary and secondary sources. Different devices such as questionnaires, internet, journals and interview will be used to collect data. The data that will be used for this research work will mainly come from ZRA. This research work will rely more on the responses gotten from the questionnaires administered and most of our conclusion will be drawn from them. The questions will focus on getting information regarding tax avoidance and tax evasion in Zambian economy. The method of data collection involved issuing out questionnaires that where filled in respectively by tax authorities (ZRA Staff) and tax payers as well as from a study of secondary data published by the ZRA and other authors.

Data Analysis and Interpretations
This chapter explains the results of the study that was undertaken. The researcher has tabulated the gathered information on tables, graphs and charts for easier understanding and interpretation. Data was collected from various respondents through questionnaires distributed to them; the data was analyzed with the use of the simple percentage technique and graphs.
As stated in chapter three (3) of this research work, two sets of questionnaires were administered. One set was administered to ZRA officials and the other set to the taxpayers. The following table gives the summary of the questionnaire administered and returned by areas of distribution.

Table. 1, **Type of Business**

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Service	12	24%
2	Merchandising	10	20%
3	Sole Proprietorship	11	22%
4	Partnership	4	8%
5	Corporation	5	10%
6	Limited Liability Co.	8	16%
	Total	**50**	**100%**

Source: Primary data

From the responses in table 1. 24% are into Service business, 22% are Sole proprietors, 20% are into Merchandising business, 16% are Limited liability Co., 10% are Corporations and 8% are Partnership businesses. From the field, data was collected from business firms that were largely represented by Service businesses, Sole proprietors, merchandising businesses followed by Limited liabilities, Corporations and Partnerships.

Table 2, Size of Business

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Small scale	19	38%
2	Medium Scale	21	42%
3	Large Scale	10	20%
	Total	**50**	**100%**

Source: Primary data

From the responses in table 2, 42% of the businesses are medium scale, 38% are small scale and 20% are large scale businesses.

Table 3, Type of Income

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Business Profits	42	84%
2	Rental Income	4	8%
3	Royalties	1	2%
4	Interest Received	1	2%
5	Dividends	2	4%
	Total	**50**	**100%**

Source: Primary data

From table 3. The types of incomes the business receive are represented as follows, 84% Business Profits, 8% Rental Income, 4% Dividends, 2% Royalties and 2% Interest Received.

Table 4, Do You Pay Tax

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Yes	39	78%
2	No	11	22%
	Total	**50**	**100%**

78% of the respondents represent the businesses that pay tax to ZRA and 22% represent businesses that do not pay any tax to ZRA.

Table 5, How Often Do You Pay Tax?

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Monthly	24	48%
2	Quarterly	10	20%
3	Yearly	5	10%
4	Not at all	11	22%
	Total	**50**	**100%**

Source :Primary data

48% of the respondents pay tax on a monthly basis, 20% on a quarterly basis, 10% on an annual basis and 22% do not pay tax at all.

Table 6 Do You Think All Companies Pay Tax?

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Yes	13	26%
2	No	37	74%
	Total	**50**	**100%**

Source: Primary data

26% of the respondents think that other companies pay tax while 74% think that other companies do not pay tax.

Table 7 Tax Evasion and Tax Avoidance Has a Negative Effect on the State of Government's Revenue

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Strongly Agree	20	40%
2	Agree	26	52%
3	Disagree	4	8%
4	Strongly Disagree	0	0
	Total	**50**	**100%**

Source: Primary data

From table 7, it shows that 40% of the respondents strongly agree that tax evasion and tax avoidance has a negative effect on the state of governments revenue, 52% agree, 8% Disagree and 0% strongly disagree.

Table 8 Is Poor Revenue Collected For Development Due To Major Effect of Tax Evasion And Tax Avoidance?

S/N	Responses	No. of Responses	Percentage Rate of Responses
1	Strongly Agree	11	22%
2	Agree	30	60%
3	Disagree	8	16%
4	Strongly Disagree	1	2%
	Total	**50**	**100%**

Source: Primary data

From the tabulated data above, the respondents attribute poor revenue collection to tax evasion and tax avoidance as follows: 22% strongly agree that poor revenue collected is due to tax evasion and tax avoidance, 60% agree, 16% disagree and 2% strongly disagree.

Recommendations and Conclusion
1. Not all businesses in this country are actually registered as only 90% indicated that their businesses are registered while the 10% are not registered.
2. 78% of the registered companies and enterprises do pay their tax monthly and quarterly.
3. 92% of the respondents indicated that tax evasion and tax avoidance has a negative effect on the state of government's revenue while 8% indicated that there is no connection between the two.

In the light of the findings, the following recommendations are made although these recommendations are not conclusion but are supplement to the already suggested measures by the state government of Zambia and other tax experts in the state.

1. The Zambian tax system should adhere to a simple, clear and unambiguous tax laws that will be continually reviewed to align with major economic target to promote an efficient fiscal policies and loop holes that serve as a fertile ground for avoidance scheme need to be amended.
2. Government should address the issue that makes corporate bodies and individuals avoid or evade tax. This can be done through judicious spending of tax payers' money.
3. Adequate legislation should also be put in place to deter people from indulging in any act of tax avoidance and tax evasion.
4. Tax payers and tax administrators should work together as partners to achieve progress. There should be a regular forum for discussing problems and looking for avenues for resolving thorny issues.
5. Tax amnesties should be regularly implemented to encourage evaders and avoiders to come forth and pay their dues.
6. Government should ensure there are proper security measures to curb smuggling and corruption at borders.
7. This study was undertaken to understand the impact of tax evasion and tax avoidance on the Zambian economy. Based on all the findings, it is evident that tax avoidance and tax evasion have a negative impact on the economy of Zambia, as huge amounts of money have been lost through tax evasion and tax avoidance.

Finally, it is evident that Zambian tax system needs reform in order to function properly to eliminate/ reduce tax avoidance and tax evasion as well as the frequent implementation of tax amnesty programs in order to encourage evaders and avoiders to turn up to pay taxes that are due.

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